



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

Cary Hunter, Interim Market Administrator

April 2021

Federal Order No. 51

To contact the California Marketing Area office:

Tel.: (916) 702-6455 — Fax: (833) 673-3751

Mailing Address: P.O. Box 6660, Folsom, CA 95763

e-mail address: market.admin@cafmmo.com — website address: www.cafmmo.com

April Pool Price Calculation

The April 2021 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$15.91 per hundredweight (cwt), an increase of \$1.06 per cwt from last month, for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Federal Marketing Order (CFMO). The SUP is calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. If reported at the average tests of pooled milk (3.88 percent butterfat, 3.22 percent protein, and 5.76 percent other solids), the April SUP would be \$17.32 per cwt, which is higher than that of March by \$1.00 per cwt. April's Producer Price Differential (PPD) at Los Angeles County was -\$1.76 per cwt, a decrease of 46 cents from last month's PPD of -\$1.30 per cwt.

Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report (NDPSR) continued their upward trends from March to April. The butter price saw the largest increase, gaining more than 19 cents per pound. The cheese price rose more substantially than last month, rising by more than 11 cents per pound. The dry whey price increased just under 6 cents per pound, and the nonfat dry milk price rose more than 5 cents per pound.

Gains in the product prices translated to gains in the component prices as well. The butterfat price climbed over 23 cents per pound from March to April. The protein price increased nearly 12 cents per pound. The other solids and nonfat solids prices increased over 6 cents and 5 cents per pound, respectively.

Lastly, all class prices increased from March to April. Class III saw the steepest increase, rising \$1.52 per cwt to \$17.67. Class IV also saw a large improvement, gaining \$1.24 to \$15.42 per cwt. Class I increased 31 cents to \$17.61 per cwt, and Class II rose 49 cents to \$15.56 per cwt.

Pool Summary

- A total of 815 producers were pooled with an average daily delivery per producer of 78,250 pounds, a decrease of 2.6 percent from March.
- Pooled milk receipts totaled 1.913 billion pounds, a decrease of 3.0 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 21.3 percent of total pooled milk receipts, up 0.2 percentage points from March.
- The average butterfat test of producer receipts was 3.88 percent.
- The average true protein test of producer receipts was 3.22 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	21.3	406,720,150
Class II	6.4	122,473,486
Class III	1.1	20,957,496
Class IV	71.2	1,363,061,863
Total Pooled Milk		1,913,212,995

Producer Component Prices

	2021	2020
	\$/lb	
Protein Price	2.8136	2.4822
Butterfat Price	1.9496	1.3218
Other Solids Price	0.4268	0.1793

Class Price Factors

	2021	2020
	\$/cwt	
Class I	17.61	18.74
Class II	15.56	13.87
Class III	17.67	13.07
Class IV	15.42	11.40

Milk Price Outlook Through 2021

The Economic Research Service's (ERS) most recent *Livestock, Dairy, and Poultry Outlook* (LDP) projects the 2021 all-milk price to average \$18.95 per hundredweight (cwt) – an increase of \$0.71 from 2020's all-milk price of \$18.24 per cwt. The LDP predicts the 2021 Class III price to average \$17.70 and the 2021 Class IV price to average \$15.75 per cwt. Based on May 19, 2021 *Chicago Mercantile Exchange* (CME) futures, the California Federal Marketing Order (CFMO) Statistical Uniform Price (SUP) is forecasted to average \$17.03 per cwt in 2021 – an increase of \$2.47 from 2020. Current CME futures suggest blend prices under Federal Order 51 will continue to recover from 2020's lows through the course of 2021; the third and fourth quarter 2021 SUPs are expected to average \$18.34 and \$18.71 per cwt, respectively.

Selected Cost Factors

The milk to feed ratio, as reported by ERS, "is the number of pounds of 16-percent protein mixed dairy feed equal in value to 1 pound of whole milk." The ratio was 2.56 in November 2020, but it has declined every month since then and sits at 1.75 in March 2021. This means that feed is becoming more expensive relative to milk. CME futures as of May 19, 2021 suggest producers will continue to face higher feed costs; corn is expected to average \$5.49 per bushel (bu) in 2021, posting an increase of nearly \$2.00 per bu over 2020's average. Moreover,

soybean prices are expected to peak above \$16 per bu in May 2021 and average an estimated \$14.06 per bu in 2021, higher than 2020's average by more than \$5.00 per bu. These high feed prices could weigh on producers' margins through the end of 2021.

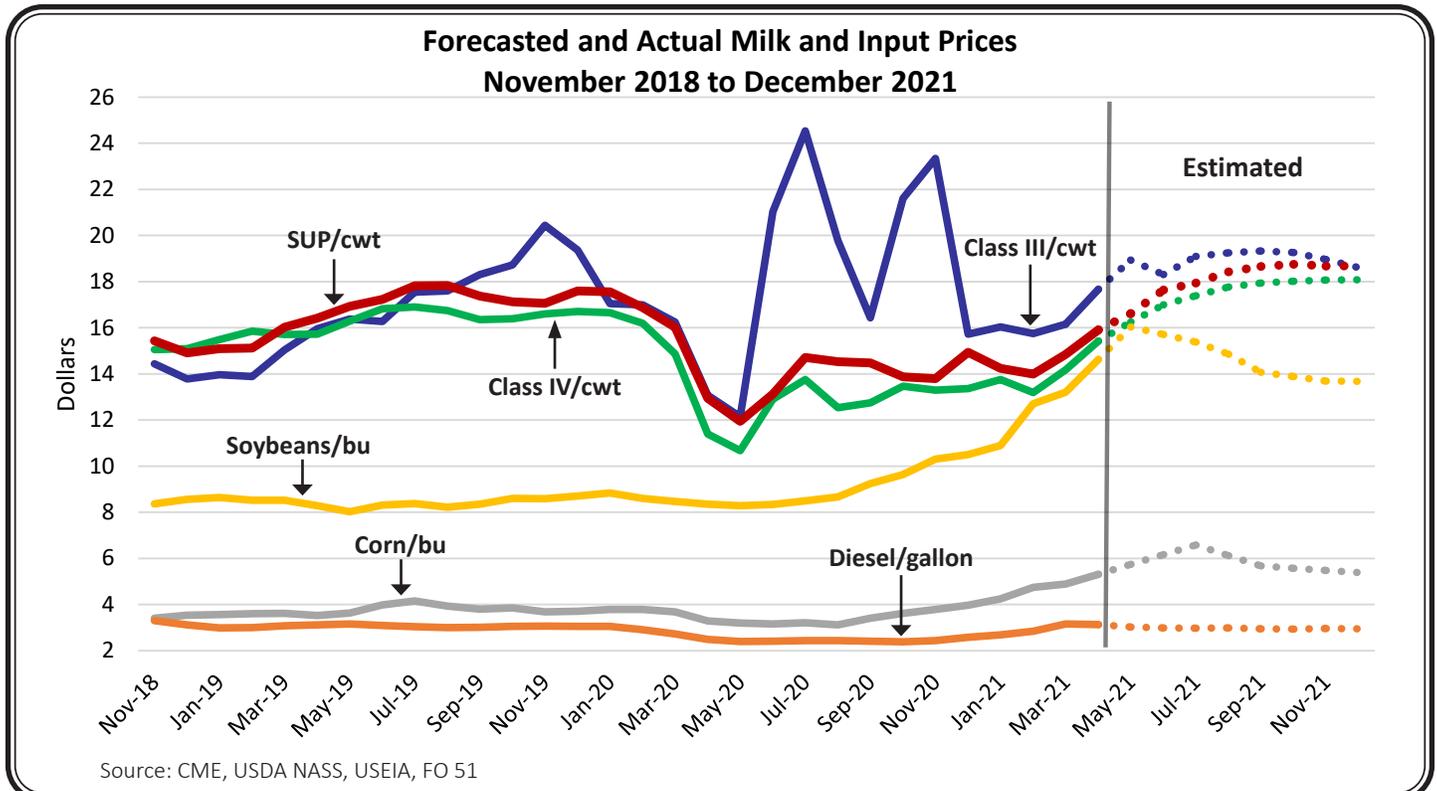
According to data from the United States Energy Information Administration (USEIA) national diesel prices are predicted to average \$2.96 per gallon in 2021, increasing by just over \$0.40 per gallon from 2020's average. However, national estimates may understate diesel costs to producers located in California – USEIA data shows that the 2020 average diesel price in California was more than \$0.80 higher than that of the whole country.

The accompanying figure illustrates these estimates, depicting the forecasted milk prices, USEIA's diesel projections, and CME grain futures.

Supply Factors

Milk Production & Herd Size

Milk production in California and throughout the United States continues to climb. The USDA National Agricultural Statistics Service (NASS) *Milk Production* report shows that California production in the first quarter of 2021 increased by 1.8 percent, adjusting for the leap day, compared to the same quarter in 2020. During the same period, milk yield per cow improved, while cow numbers were reduced by roughly 3,000 head. Compared to the previous quar-



ter (October to December 2020), the number of cows in California remained relatively steady at 1.72 million.

The *Milk Production* report shows that total production across the U.S. rose 2.2 percent in Q1 of 2021 versus that of 2020, accounting for the leap day. The dairy herd expanded over the same period, rising by 82,000 head. Nationally, the number of cows has continued to climb since June 2020. As cull cow slaughter rates remain low, cow numbers may continue to increase. However, with feed prices on the rise as we head into the hot summer months, cull cow slaughter rates have the potential to rise, especially in California. ERS projects the national dairy herd to increase through the second and third quarters of 2021 but decline in the fourth quarter due to rising feed prices. Prevalent drought conditions in the Western U.S. are likely to put some dampening effect on production.

Cold Storage

As of May 17, 2021, butter stocks are at almost 72.9 million pounds, according to the NASS *Weekly Cold Storage Holdings* report. Since the first of the year, butter in cold storage has increased by more than 60 percent. Increased milk production may have contributed to higher stocks, especially during the spring flush. In contrast, cheese stocks have remained relatively unchanged since January 1st. Large amounts of butter in cold storage will continue to put downward pressure on Class IV prices, but improving food service demand could alleviate some of this pressure.

Demand Factors

Exports

The aggregate volume of U.S. dairy products exported in March 2021 was nearly 235,000 metric tons as reported by the United States Dairy Export Council. March's exports not only represent an increase of more than 23 percent from the year prior, but they also equate to an all-time high on a milk solids basis (215,557 metric tons), the second highest as percentage of production (18.6 percent), and the highest value (\$688 million) since 2014. Looking to the remainder of the year, the USDA's *World Agricultural Supply and Demand Estimates* report forecasts 2021 milk exports of 10.8 billion pounds on a fat basis, representing an increase of 1.5 billion pounds from 2020's levels.

According to the International Monetary Fund (IMF), global real Gross Domestic Product (GDP) is expected to increase by 6 percent from 2020 to 2021. The IMF also projects 2021 GDP increases in several major export markets for U.S. dairy products: Mexico (5 percent), Canada (5 percent), and China (8.4 percent). Strength in these markets suggest opportunities for U.S. dairy exports in 2021. Despite

robust exports in Q1 2021 and global economic growth, increased price competition from foreign markets could weigh on export quantities to end the year, particularly for dry skim milk products.

Domestic Situation

According to the IMF, U.S. GDP is expected to increase by 6.4 percent in 2021 as compared to 2020. This establishes general improvement in the domestic economy; however, the full nature and pace of the domestic economy's recovery from the Covid-19 pandemic remains to be seen. The Bureau of Labor Statistics lists the U.S. unemployment rate at 6.1 percent in April 2021. The April figure is up slightly from March 2021 – the first increase in the unemployment rate since April 2020 – but equates to a decrease of 8.7 percentage points from a year prior. Still, the jobs added in April 2021 fell short of many estimates. These data temper some optimism for an immediate economic resurgence but remain supportive of a gradual path to recovery. The Consumer Confidence Index, which is published by the Conference Board and represents consumers' perspective on the health of the U.S. economy, posted large gains in April 2021, increasing from 109.0 in March 2021 to 121.7. The change reveals consumers are increasingly confident that the economy will improve substantially in the next six months.

The National Restaurant Association's Restaurant Performance Index (RPI) increased to 105.1 in March – up 5 percent from February 2021. March's RPI indicates that the food service sector is in an expansionary period – an RPI above 100 indicates expansion, while an RPI below 100 indicates contraction in the industry. This bodes well for dairy demand, which has been hindered by closures and limitations on restaurants since the onset of the pandemic. Expectations of restaurant operators, as reported by the National Restaurant Association, suggest this expansion is likely to continue moving forward; 78 percent of restaurant operators expect higher sales in six months, while only 5 percent expect lower sales in six months.

While these indicators are supportive of increased demand, optimism in expected prices is somewhat restrained by worries of inflation, potential coronavirus variants, and continued logistical challenges in vaccination campaigns. These factors contribute to uncertainty which, though less pervasive than in the height of the pandemic, imposes potential barriers to the general improvement of the economy and dairy prices moving forward. Nevertheless, the current dairy outlook is certainly encouraging when compared to that at the start of 2021. ❖



RETURN SERVICE REQUESTED

FIRST CLASS MAIL

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Stop 9410, Washington, DC 20250-9410 or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal-relay). USDA is an equal opportunity provider and employer.

Computation of Producer Price Differential and Statistical Uniform Price*

	<u>Product Pounds</u>	<u>Price per cwt./lb.</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	397,306,711	\$12.10	\$48,074,112.03	
Butterfat	9,413,439	1.6945	15,951,072.39	
Less: Location Adjustment to Handlers			(833,269.26)	\$63,191,915.16
Class II— Butterfat	13,659,469	1.9566	26,726,117.05	
Nonfat Solids	10,162,181	1.0033	10,195,716.17	36,921,833.22
Class III— Butterfat	1,392,953	1.9496	2,715,701.19	
Protein	661,440	2.8136	1,861,027.58	
Other Solids	1,173,343	0.4268	500,782.80	5,077,511.57
Class IV— Butterfat	49,738,292	1.9496	96,969,774.09	
Nonfat Solids	122,635,438	0.9902	121,433,610.70	218,403,384.79
Total Classified Value				\$323,594,644.74
Add: Overage—All Classes				72,389.07
Inventory Reclassification—All Classes				147,531.82
Other Source Receipts	34,192			294.05
Total Pool Value				\$323,814,859.68
Less: Value of Producer Butterfat	74,204,153	1.9496	(144,668,416.68)	
Value of Producer Protein	61,584,171	2.8136	(173,273,223.51)	
Value of Producer Other Solids	110,147,969	0.4268	(47,011,153.16)	(364,952,793.35)
Total PPD Value Before Adjustments				(\$41,137,933.67)
Add: Location Adjustment to Producers				7,475,301.15
One-half Unobligated Balance—Producer Settlement Fund				819,196.36
Less: Producer Settlement Fund—Reserve				(829,714.27)
Total Pool Milk & PPD Value	1,913,247,187			(\$33,673,150.43)
Producer Price Differential		\$ (1.76)		
Statistical Uniform Price		\$15.91		

* Price at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.